

June 29, 2006



Financial Management

Improper Payments for Defense Fuel (D-2006-094)

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Acronyms

DESC	Defense Energy Support Center
DFAS	Defense Finance and Accounting Service
IPOD	Improper Payments Online Database
OMB	Office of Management and Budget



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June 29, 2006

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE ENERGY SUPPORT CENTER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
COMMANDING GENERAL, HEADQUARTERS, U.S.
ARMY INVESTIGATIVE COMMAND
DIRECTOR, NAVAL CRIMINAL INVESTIGATIVE
SERVICES
DEPUTY INSPECTOR GENERAL, DEFENSE CRIMINAL
INVESTIGATIVE SERVICES

SUBJECT: Report on Improper Payments for Defense Fuel (Project No. D-2006-094)

We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all issues be resolved promptly. Comments from the Defense Finance and Accounting Service were partially responsive. We request that the Defense Finance and Accounting Service-Columbus Central Site Deputy Director provide additional comments by July 28, 2006.

If possible please provide management comments in electronic format (Adobe Acrobat file only) to Audcolu@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the/ Signed /symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. James L. Kornides at (614) 751-1400 extension 211 or Mr. Curt W. Malthouse at (614) 751-1400 extension 230. See Appendix B for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in cursive script, reading "Paul J. Granetto", is written over a horizontal line.

Paul J. Granetto, CPA
Assistant Inspector General
Defense Financial Auditing
Service

Department of Defense Office of Inspector General

Report No. D-2006-094

June 29, 2006

(Project No. D2005-D000FJ-0206.000)

Improper Payments for Defense Fuel

Executive Summary

Who Should Read This Report and Why? DoD financial managers and contracting officials responsible for identifying and reducing improper payments should read this report because it discusses ways in which DoD can more accurately analyze and report improper payments related to the purchase of fuel.

Background. Each year, the Office of Management and Budget requires Federal agencies to complete reviews to determine the amount of improper payments associated with Government programs and organizations. DoD pays for large amounts of fuel each year. The Defense Energy Support Center is responsible for contracting for fuel for each Military Department, and the Defense Finance and Accounting Service-Columbus pays contractors for the fuel that is delivered. The Defense Finance and Accounting Service-Columbus paid more than \$10.1 billion for fuel during FY 2005 and reported \$22.5 million in improper payments associated with the fuel that the Defense Energy Support Center bought.

Results. Although it reported \$22.5 million in improper payments related to the procurement of fuel in FY 2005, the Defense Finance and Accounting Service Columbus and the Defense Energy Support Center did not have adequate control processes in place to provide assurance that the amount reported was accurate. The Defense Energy Support Center and the Defense Finance and Accounting Service-Columbus had not begun the contract reconciliation process on approximately 3,421 fuel contracts which are required to be completed before closeout, a process that provides the information needed to determine whether fuel payments are accurate. As a result, the Defense Finance and Accounting Service-Columbus inappropriately reported to the Under Secretary of Defense (Comptroller)/Chief Financial Officer that DoD was at low risk for making improper fuel payments. The Defense Energy Support Center and the Defense Finance and Accounting Service-Columbus needed to close contracts to improve the baseline of improper payments related to fuel and permit management to determine the causes of improper payments and to find ways to reduce the amounts. The Defense Finance and Accounting Service-Columbus inaccurately reported that it corrected a material weakness related to the identification of improper payments on commercial and vendor pay contracts during FY 2005. The Defense Finance and Accounting Service-Columbus needed to report the material weakness on the identification of improper commercial and vendor payments in its Annual Statement of Assurance and assign a medium-risk rating to the fuel payments process. Additionally, the Defense Energy Support Center and the Defense Finance and Accounting Service-Columbus needed to report a material weakness related to the problems with the closing of fuel contracts. (See Finding section of the report for the detailed recommendations.)

Management Comments and Audit Response. The Director, Defense Energy Support Center concurred with the recommendations. He stated that his Center began submitting reconciliation requests on contracts in November 2005 and intends to issue procurement instructions to require all contracting divisions to use the Defense Finance and Accounting Service-Columbus centralized electronic mailbox for reconciliation requests. The Director agreed to establish a tracking system to monitor contract reconciliations and to provide the Defense Finance and Accounting Service-Columbus access to automated contract information needed to perform reconciliations. He also agreed to report internal control weakness on the reconciliation and closing of fuel contracts. He also stated that he issued new procedures for reviewing improper payment referrals that resulted from data mining efforts. The criminal investigation organizations agreed to coordinate world-wide fuel investigations with the Defense Energy Support Center fuel fraud attorney.

The Defense Finance and Accounting Service-Columbus Central Site Deputy Director concurred with two recommendations, partially concurred with two recommendations, and nonconcurred with two recommendations. He agreed to prioritize contract reconciliation based on the Contract Completion Statements (DD1594s) received from the Defense Energy Support Center. He also stated that the Fuels Payment Division is pursuing the creation of a reconciliation/pre-validation team to accomplish these reconciliations. He also stated that a post payment process is used as a control mechanism to ensure the accuracy of improper payment reporting. He further stated that to correct the weakness related to the reporting of improper payments, the Defense Finance and Accounting Service-Columbus developed a statistically sound methodology, during the fourth quarter of FY 2005, to estimate improper payments. He stated that by October 1, 2006, the Fuels Payment Division will have procedures in place to reconcile contracts with a standardized reconciliation tool and to report these reconciliations to the Defense Energy Support Center. The Deputy Director stated that the Defense Finance and Accounting Service-Columbus had established a baseline for improper fuel payments. He also stated that the fuel payment activity was not at medium risk for improper payments because the payments did not exceed 2.5 percent of total payments. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

We disagree with the Defense Finance and Accounting Service-Columbus Central Site Deputy Director. Until the backlog of approximately 3,421 contracts awaiting reconciliation is completed, the baseline for improper fuel payments remains unknown. The 2.5 percent threshold for improper payments established by the Office of Management and Budget applies only to high-risk activities and programs and is not relevant to assessing medium risk. We believe the fuel payment activity is at medium risk because the baseline of reported improper fuel payments increased from zero in FY 2003 to \$22.5 million in FY 2005. Additional risk of improper payments has been shown by ongoing data mining and criminal investigations. We request that the Deputy Director provide additional comments by July 28, 2006.

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Background

Defense Logistics Agency documents indicate that DoD purchases more light refined petroleum product than any other single organization or company in the world. Each year, it buys fuel for its use in the continuing war on terrorism in the Middle East and for accomplishing peaceful global missions. DoD buys a variety of types of fuel for its ships, aircraft, and land vehicles and also solicits and procures fuel for the Strategic Petroleum Reserve. In FY 2005, DoD procured almost \$10.1 billion of fuel, which obligates it to comply with the provisions of the Improper Payments Information Act.

Responsibility for acquiring the various types of fuel and for maintaining adequate quantities rests with the Defense Energy Support Center (DESC), an organization within the Defense Logistics Agency. DESC manages the fuel and awards contracts to vendors worldwide to acquire sufficient fuel for the Military Departments to maintain uninterrupted operations.

When fuel is delivered, the Defense Finance and Accounting Service-Columbus (DFAS-Columbus) receives an invoice and disburses funds through two vendor payment systems: the Automated Voucher Examination and Disbursement System and the Fuels Automated System.

One component of the President's Management Agenda is an initiative to improve financial management by reducing erroneous payments. In May 2003, the Office of Management and Budget (OMB) issued Memorandum M-03-13, "Improper Payments Information Act of 2002," (OMB Memorandum M-03-13), that outlines how Federal agencies should reduce erroneous payments. Agencies should:

- review all programs and processes and identify those that are susceptible to significant erroneous payments,
- statistically estimate the annual amount of erroneous payments for those programs and processes,
- implement a plan to reduce the incidence and amounts of erroneous payments, and
- report program and organizational estimates of the annual amount of erroneous payments and progress in reducing them.

OMB Memorandum M-03-13 defines erroneous payments as any payment that should not be made or that was an incorrect amount under statutory, contractual, administrative, or other legally applicable requirement. Erroneous payments include the following:

- overpayments;
- underpayments (including inappropriate denials of payment or service);
- payments to an ineligible recipient or for an ineligible service;
- duplicate payments;
- failure to reduce payments by applicable sales discounts, cash discounts, rebates, or other allowances; and
- payments for items not received.

OMB Memorandum M-03-13 requires agencies with more than 2.5 percent of annual payments and \$10 million in annual improper payments to use statistical sampling to estimate the agency's annual amount of erroneous payments.

The OMB guidance is being revised and will be included as Appendix C in OMB Circular A-123, "Management's Responsibility for Internal Control." The revision will include detailed procedures on the importance of establishing accurate baselines.

Objectives

The audit objective was to determine whether DoD established adequate control procedures to minimize improper payments related to the purchase of fuel. We also assessed compliance with applicable laws and regulations. See Appendix A for a discussion of the scope and methodology and prior coverage related to the objectives.

Managers' Internal Control Program

DoD Instruction 5010.40, "Manager's Internal Control Program Procedures," January 4, 2006, supersedes DoD Directive 5010.38, "Management Control Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996. The instruction requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Managers' Internal Control Program. The management control objective was not an announced audit objective. However, because reporting improper payments is a part of the President's Management

Agenda, we determined whether DFAS-Columbus reported a material weakness related to identifying and reporting improper payments. We also determined whether DFAS-Columbus performed an adequate risk assessment.

Adequacy of Management Controls. DFAS-Columbus inaccurately reported that it corrected a material weakness (as defined by DoD Instruction 5010.40) related to identifying improper payments on commercial and vendor pay contracts, including fuel payments, during FY 2005. Specifically, DFAS-Columbus did not implement a plan to use statistical samples to project the amount of improper payments on commercial and vendor contracts. DESC and DFAS-Columbus also did not identify problems related to reconciling and closing fuel contracts. Recommendations 1. and 2., if implemented, will correct the identified weaknesses in the fuel payment process. A copy of the report will be provided to the senior officials responsible for management controls at DESC and DFAS-Columbus.

Adequacy of Management's Self-Evaluation. The DFAS-Columbus self-evaluation for FY 2005 inappropriately closed a material weakness related to improper payments on commercial and vendor contracts. In addition, DFAS-Columbus inappropriately concluded that the Fuels Payment Division was at low risk for making improper payments. A separate draft report from DFAS-Columbus on Compliance of Fuel Systems showed that the DFAS-Columbus (Stock Fund) was noncompliant with the DFAS Management Control Program for the systems that process fuel payments. DFAS-Columbus and DESC need to implement the recommendations in the DFAS-Columbus compliance study. DFAS-Columbus is still performing this compliance study and therefore any recommendations are part of an ongoing effort to improve the payment process.

Controls Over Fuel Payments

Although they reported \$22.5 million in improper payments related to the procurement of fuel in FY 2005, the DFAS-Columbus and DESC did not have adequate control processes in place to provide assurance that the amount reported was accurate. DESC and DFAS-Columbus had not begun the contract reconciliation process on approximately 3,421 fuel contracts which are required to be completed before closeout, a process that provides the information needed to determine whether fuel payments are accurate. These conditions existed because DFAS-Columbus had not established the root causes for improper payments for fuel. It did not establish an accurate baseline for the improper payments and had not prioritized contract reconciliations into the daily work load to provide results to the DESC in a timely manner. Additionally, it had reported fuel payments as medium risk and had not reported weaknesses in reconciliation and closing contracts as internal control weaknesses. DESC did not submit reconciliation requests for completed contracts to DFAS-Columbus, did not establish a system to monitor contract reconciliations, did not allow DFAS-Columbus access to DESC contract systems, and had not updated its procedures for reviewing improper payment referrals from data mining. As a result, DoD could not certify that amounts related to improper payments for fuel for FY 2005 were accurate.

Identification of Improper Fuel Payments

DFAS-Columbus did not establish controls to categorize the root causes of the improper payments. After initially identifying zero improper fuel payments for FY 2003 to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DFAS-Columbus identified \$12.4 million in improper fuel payments for FY 2004 and \$22.5 million for FY 2005. DFAS-Columbus compiled the information from manual controls that identified overpayments and from automated controls that detected duplicate payments. DFAS-Columbus compiled the improper payments in the Improper Payments Online Database.

Despite the growing amount of improper payments that it identified, DFAS-Columbus rated the fuel payment process as low risk for improper payments because officials believed that the \$22.5 million represented less than about two-tenths of 1 percent of the \$10.1 billion in payments for FY 2005. In addition, DFAS-Columbus believed that significant overpayments and underpayments would be identified during the reconciliation process for the 558 Into-Plane contracts. See the Contract Reconciliation Process paragraph.

We concluded that the fuel payment process was at medium risk for erroneous payments because the \$22.5 million exceeds the \$10 million threshold that OMB established.

Causes for Improper Payments. Although DFAS-Columbus established reason codes to identify what caused the improper payments, the codes did not provide sufficient details to identify the root cause, as required by FMR Volume 10,

Chapter 20, Section 2003, that persisted in the examples we encountered. Instead, DFAS-Columbus reported on three broad categories of improper payments in its FY 2006 input to DoD in compliance with the Improper Payments Information Act: \$12,584,756 in overpayments; \$7,463,523 in duplicate payments; and \$2,485,982 in payments to the wrong vendor. DFAS-Columbus did not identify any of the improper payments during contract reconciliation. We believe that the erroneous payments should be categorized by root cause to identify and correct problem areas.

The following categories are examples of DFAS-Columbus improper payments:

Overpayments. Overpayments occur for many reasons: for example, keystroke errors, noncompliance with established procedures, and faulty or out-of-date information in the system are a few. The following are examples of overpayments:

- In FY 2005, DFAS-Columbus overpaid a South Korean contractor by \$3,040,666 because it improperly added the invoice amount for FY 2004 to the invoice amount for FY 2005. The amount was recouped.
- In FY 2005, DFAS-Columbus overpaid a Singapore contractor by \$2,306,644 because Multi Services Corporation, the vendor responsible for inputting invoices to the system for payment, calculated the fuel vouchers in liters rather than gallons. This overpayment amounted to more than 18 percent of all overpayments for FY 2005 and was recouped.

Duplicate Payments. DESC; DFAS-Columbus; and the DoD Office of Inspector General, Data Mining Division identified potential duplicate fuel payments through detailed analyses of automated contract information. The analyses identified more than \$6.5 million in erroneous payments for collection during FY 2005 with another \$868,641 as possible duplicate payments requiring additional research.

The following examples illustrate some of the invalid payments that DESC and the Data Mining Division identified. The DESC-San Antonio Office identified:

- possible duplicate payments of \$868,641 for 2002 through 2004;
- fuel transactions processed in error (twice or more) amounted to \$2,973,743;
- credit card transactions processed as noncontract transactions, rather than using the DESC refueling contract at that location, totaled \$3,505,613; and
- fuel transactions that were improperly processed twice to the same aircraft amounted to \$63,346.

DESC indicated that the data mining is effective in identifying errors in credit card payments. Embedded software in the fuel payment systems that identifies duplicate payments does not identify fuel payments made with the new Into-Plane contractor credit cards.

DESC began updating desk procedures to use in its review process for identifying potential duplicate payments through data mining. DESC needs to complete the desk procedures and issue them quickly so that potential duplicate payments may be researched.

Payments to Wrong Vendor. DFAS-Columbus also verified that wrong vendors are paid when contract numbers are not up-to-date or the banking information in the payment system is incorrect. The following are examples of wrong vendors being paid because information was either incorrect or out-of-date:

- DESC awarded the new contract for processing credit card transactions to a different vendor, but did not update the contract number in its fuel payment system. As a result, DFAS-Columbus information was incorrect, and the former contractor received payments of \$2,094,966 instead of the new contractor. DFAS-Columbus recouped the improper payments and paid the correct vendor.
- DFAS-Columbus input the wrong contractor number to the payment system, which resulted in an improper payment of \$5,313,800. DFAS-Columbus identified the error, recouped the overpayment, and paid the correct vendor.

The OMB guidance is being revised and will be included in Appendix C of the future OMB Circular A-123, “Management’s Responsibility for Internal Control.” The revision will include the best practices for eliminating improper payments. The guidance states, “Federal agencies should be taking all necessary steps to ensure the accuracy and integrity of Federal payments,” and uses data mining as an example of a practice that is yielding positive results in certain Federal agencies: “Data mining – an automated process used to scan data bases to detect patterns, trends, and/or anomalies, for use in risk management or other areas of analysis. This technique can be used to build more effective predictive modeling criteria, identify control weaknesses that are leading to improper payments, and/or inform on the most effective oversight and due diligence activities.” DESC needs to continue using data mining in recouping improper payments in cooperation with the DoD Office of Inspector General.

Criminal Investigations. The Defense Criminal Investigative Service indicated that it was working on at least four fuels-related fraud cases amounting to \$179,500. These cases are investigating fuel diversion, product substitution, fleet card fraud, and invoice falsification. The Naval Criminal Investigative Service identified 45 instances of fuel-related credit card fraud amounting to \$1,208,206 for September 2001 through July 2005. Almost all cases dealt with Government credit card fraud. The Army Criminal Investigative Command records showed 10 examples of fuel-related fraud amounting to at least \$33,884 during the past 3 years. These cases consisted of Government credit card fraud

and fuel diversion. Additionally, the Air Force Office of Special Investigations indicated that it had two open cases of fuel-related fraud and three closed cases with unspecified dollar amounts. Those cases were investigating black marketing fuel coupons and fuel diversion. It was also the only military Service investigative agency that reported no current fuel-related credit card fraud investigations. As fuel prices rise, the incentive for theft and fraud rises, causing an increased risk to the Government.

The DoD investigative agencies need to coordinate all fuel-related investigations worldwide with the DESC Fuel Fraud Attorney. In spite of the ongoing criminal investigations in the Military Departments, the DoD Service investigating agencies did not always inform the DESC Fraud Attorney of the existence or the status of the investigations. The DoD Office of Inspector General, in coordination with the Service investigative agencies, uncovered several investigations that the investigating agencies did not report to the DESC Fraud Attorney. The DESC Fraud Attorney expressed concern that, because DESC holds title to the fuel until it is issued to a vehicle, it therefore should be informed of all fuel investigations. This information allows the DESC Fraud Attorney to detect patterns among all the Services and assist with a variety of investigations. The investigative organizations also did not have a central office where all information on fuel investigations could be located. The organizations were organized according to function, depending on the nature of the alleged crime.

Medium Risk Area. The \$22.5 million in improper fuel payments for FY 2005 and numerous investigations indicate that the fuel payment process risk for making improper payments is medium. The amount of improper payments is greater than the \$10 million OMB threshold, and the amount of criminal activity also reflects risk. DFAS-Columbus needs to raise its risk assessment for the fuel payment process to medium.

Contract Reconciliations

DoD Financial Management Regulation, Volume 10, Chapter 20, "Contract Reconciliation," prescribes the policy and standard procedures necessary for contract files, related payments, and accounting records to remain complete, consistent, and accurate. DESC contracting officers cannot close fuel contracts until they submit a DD Form 1594 requesting a contract reconciliation. DFAS-Columbus may then complete the requested reconciliation, and identify improper payments and other accounting problems.

The DFAS-Columbus reconciliation process uses various checks and balances to determine whether the contract file has all price and administrative modifications, that all deliveries were made, and that the total dollar amount disbursed is correct. These tasks are accomplished through comparing various queries from the Automated Voucher Examination and Disbursing System, the Defense Fuels Automated Management System, and the Standard Financial Systems Redesign-1. The results of the comparison show any duplicate or over/under payments or unbilled payments. Reconciliation checklists will help DFAS-Columbus to complete all steps.

As of July 2005, the then-Director of Fuel Payment Operations, DFAS-Columbus stated that contracts could not be reconciled because he did not have enough staff to complete the manual process. We worked with DFAS-Columbus to determine whether the reconciliation process could be automated. However, as of January 2006, DFAS-Columbus, working with DESC, could not develop reliable automated procedures to reconcile the fuel contracts.

In January 2006, DESC and DFAS-Columbus officials concluded that they had a backlog of 3,421 contracts requiring reconciliation prior to closeout. We could not confirm the conclusion. Officials from both organizations indicated this condition existed because DESC and DFAS-Columbus did not develop controls for processing DD Form 1594-Contract Completion Statements, a key reconciliation tool. DFAS-Columbus had no documentation that DESC had been submitting DD Form 1594s, therefore a verifiable backlog was not available. However, DFAS-Columbus received electronic spreadsheets from DESC with the details of contracts that were ready for reconciliation closeout. Although this was not the best or most proper procedure in the DoD Financial Management Regulation, DFAS-Columbus did perform the reconciliations. We informed DESC about the problem with reconciliations and their requests, and DESC began requesting new contract reconciliations in November 2005 through a central electronic mailbox at DFAS-Columbus. Although DESC contracting officials made errors in filling out the reconciliation request forms, DESC was taking action to prepare the forms properly in the future.

Of the 3,421 contracts awaiting reconciliation, 558 were related to Into-plane contracts that could have significant overpayments and underpayments. Into-plane contracts are indefinite delivery type contracts for refueling only. DFAS-Columbus and DESC were working out problems with the new contract that affected the automated closeout procedures.

Another contract closeout problem was that, although DESC was archiving contract data into the Automated Voucher Examination and Disbursing System and the Defense Fuels Automated Management System, DFAS-Columbus could not access this information which it needed for reconciling contracts. DFAS-Columbus officials indicated that their staff could automate the closeout process if they had access to the DESC systems that contain the contract information.

Improving the contract closeout process within the DoD is a high-level priority of the Under Secretary of Defense for Acquisition and Technology because it corrects accounting errors and identifies improper payments and other contracting errors. Accordingly, DESC needs to provide DFAS-Columbus with automated access to its contract information so that DFAS-Columbus can incorporate the fuel reconciliation process into its workload.

Conclusion

Until DFAS-Columbus reduces the backlog of fuel contracts requiring reconciliation, DoD will not know the amount of its improper payments, and monies owed the Government may become uncollectible after claim expiration

dates. DESC was very concerned about discontinuing contract closeout reconciliations; however, it did not always provide DFAS-Columbus with correct contract payment data or with DD Form 1594-Contract Completion Statement requests properly or timely. DESC also did not provide DFAS-Columbus with access to all needed contract information on fuel payments.

Management Comments on the Finding and Audit Response

Management Comments. The Director, Defense Energy Support Center stated that the report incorrectly referred to DESC Into-Plane contracts as credit card contracts. He stated that Into-Plane contracts are indefinite-delivery type contracts for refueling only. The AIR Card simply is the identification mechanism and billing instrument for contract lifts and/or non-fuel items or non-contract fuel. The Director of the Air Force Office of Special Investigations stated that he did not believe the status of criminal prosecutions was relevant to the report. He also stated that we should delete a sentence related to the counterintelligence inquiries because the sentence was not related to fraud. He also stated that the report should clarify that the Air Force Office of Special Investigations had no investigations involving fuel-related credit card fraud. For the full text of the comments, see the Management Comments section of the report.

Audit Response. We made corrections to the report to address the comments.

Recommendations

1. We recommend that the Director, Defense Finance and Accounting Service-Columbus:

a. Establish an accurate baseline for improper fuel payments.

Management Comments. The Central Site Deputy Director nonconcurred and stated that the Fuels Payment Division has an established baseline for improper fuel payments for FY 2005 in the Improper Payments Online Database. He also stated that the baseline will be verified for accuracy as reconciliations and post payment audits are completed.

Audit Response. The Central Site Deputy Director comments are partially responsive. However, until the backlog of approximately 3,421 contracts awaiting reconciliation is completed, the baseline for improper fuel payments remains unknown. We request that the Deputy Director reconsider his position on the recommendation and provide comments on the final report.

b. Prioritize contract reconciliations into the daily workload and provide results to the Defense Energy Support Center, Defense Logistics Agency in a timely manner.

Management Comments. The Central Site Deputy Director concurred and stated that the Fuels Payment Division will prioritize contract reconciliation based

on the Contract Completion Statements (DD1594s) received from the DESC. He also stated that the Fuels Payment Division is pursuing the creation of a reconciliation/pre-validation team to accomplish these reconciliations. He stated that by October 1, 2006, the Fuels Payment Division will have procedures in place to reconcile contracts with a standardized reconciliation tool and to report these reconciliations to DESC.

c. Report Fuels Payment as medium risk, in accordance with the Improper Payments Information Act.

Management Comments. The Central Site Deputy Director nonconcurred and stated that DFAS Columbus does not agree the Fuels Payment Division should be rated as a medium risk. The Fuels Payment Division's erroneous payments were rated low risk based on the OMB Implementation Guidance for the Improper Payments Information Act of 2002, Public Law 107-300, which states in part, "Significant erroneous payments are defined as annual erroneous payments . . . exceeding both \$10 million and 2.5 percent of program payments." Although improper payments for the Fuels Payments Division did exceed the \$10 million threshold established by the OMB, the improper payments did not exceed 2.5 percent of total program payments.

Audit Response. The Central Site Deputy Director comments are non-responsive. The 2.5 percent threshold for improper payments established by the OMB applies only to high-risk activities and programs and is not relevant to assessing medium risk. We believe the fuel payment activity is at medium risk because the baseline of reported improper fuel payments increased from zero in FY 2003 to \$22.5 million in FY 2005. Additional risk of improper payments has been shown by ongoing data mining and criminal investigations. We request that the Deputy Director reconsider his position and provide comments on the final report.

d. Report identification and reporting of improper contract payments and reconciliation and closing of contracts as internal control weaknesses.

Management Comments. The Central Site Deputy Director partially concurred and stated that a post payment process is used as a control mechanism to ensure the accuracy of improper payment reporting. He stated that to correct the weakness related to the reporting of improper payments, DFAS Columbus developed a statistically sound methodology, during the fourth quarter of FY 2005, to estimate improper payments. The statistical methodology is used to validate the accuracy of the actual improper payments reported in an improper payments database. Closure of the material weakness was based on an independent validation by the Internal Review Office of the proper application of the methodology during the MOCAS post payment audit. The Deputy Director also stated that the fuel computer system is scheduled for post payment audit in June 2006. He stated actions for this recommendation will be completed by August 1, 2006.

Audit Response. The Central Site Deputy Director comments are partially responsive. We will review the status of corrective actions during our ongoing

DoD-wide audit of the identification and reporting of improper payments. No further comments are required.

e. Implement the recommendations of the Defense Finance and Accounting Service-Columbus in the Compliance Review of Fuel Systems and test to determine whether internal controls are working as intended.

Management Comments. The Central Site Deputy Director concurred and stated that the Fuels Payment Division will implement the recommendations from the Compliance Review of the Fuels System. He stated that testing to determine whether internal controls are working as intended will be accomplished according to the Federal Managers' Financial Integrity Act standardized matrices. He also stated that the Federal Managers' Financial Integrity Act reviews are completed quarterly by the Division and that the Audit Support Branch will perform a Compliance Review no later than October 1, 2006.

f. Establish controls to categorize the root causes of improper payments.

Management Comments. The Central Site Deputy Director partially concurred and stated that there are existing reason codes that identify the root causes of improper payments recorded in IPOD and these codes are updated as needed. He also stated that guidance to reiterate the proper use of the codes will be documented and provided to all payment offices by July 3, 2006.

Audit Response. The Central Site Deputy Director's comments are partially responsive. The existing codes do not identify specific root causes and the Deputy Director needs to recognize that the codes need to be updated. The code "System Problem," for example, is too general a term to classify possible ongoing systemic problems. DESC not updating fuel prices, contractor, or contract details may have been the root cause for many IPOD existing reason codes. We request that the Deputy Director reconsider his position on the recommendation and provide comments on the final report.

2. We recommend that the Director, Defense Energy Support Center, Defense Logistics Agency comply with Federal Acquisition Regulations and DoD Regulations to:

a. Submit reconciliation requests for completed contracts on DD Form 1594-Contract Completion Statements to the Defense Finance and Accounting Service-Columbus in accordance with the Federal Acquisition Regulation Subpart 4.804-4 and the Defense Energy Procurement Instruction.

Management Comments. The Director concurred and stated that, as stated in the report, DFAS Columbus established an electronic report as a central receiving point for DD Form 1594s in November 2005. He also stated that DESC intends to revise the Defense Energy Procurement Instruction to require all contracting divisions to use the DFAS Columbus electronic mailbox for submitting their DD Form 1594s by May 31, 2006.

b. Establish a system to monitor contract reconciliations.

Management Comments. The Director concurred and stated that in order to preclude future loss of documents and untimely submissions, DESC will develop an electronic control system to track the DD Form 1594 submissions to DFAS. He also stated that the tracking system, with associated metrics and progress visibility, will become operational once DFAS establishes their automated reconciliation system on September 30, 2006.

c. Allow Defense Finance and Accounting Service-Columbus access to Defense Energy Support Center contract systems.

Management Comments. The Director concurred and stated that upon DFAS' request for contract-specific archived data, DESC will upload the pertinent information into a temporary Defense Fuel Automated Management Systems file. DFAS will then be able to enter Defense Fuel Automated Management Systems and run a query to access the data. He also stated that a business process will be developed between DESC and DFAS to institutionalize these procedures. Additionally, he stated that when the Into-Plane Program moves to the Fuels Enterprise Server, DFAS will have direct access to the Fuels Enterprise Server for information by June 30, 2006.

d. Report reconciliation and closing for fuel contracts as internal control weaknesses.

Management Comments. The Director concurred and stated that DESC will establish an internal control objective for the timely and accurate closeout of DESC contracts. He also stated that they have already initiated the development of an electronic control system to track the DD Form 1594 submission to DFAS, as described in response to Recommendation 2.b. He stated that DESC will work closely with DFAS to ensure that resolving reconciliation process issues, a DFAS responsibility, is included in the overall closeout process by September 30, 2006.

e. Issue updated procedures for reviewing improper payment referrals from data mining.

Management Comments. The Director concurred and stated that DESC recently revised duplicate billing filters to reduce the likelihood of duplicate payments. He stated that in order to ensure that Into-Plane contractors followed proper procedures in invoice submission, DESC-P (contracting) issued a letter to all Into-Plane merchants regarding proper submission of corrected or duplicate transactions. He also stated that in addition to the improvements to the duplicate billing procedures, DESC-K issued a Fuel Card Standard Operating Procedure (DESC-K-05-1) implementing the performance of a statistical sampled quarterly analysis to mitigate risk of improper manual transactions from being entered and processed in the Automated Voucher Examination Disbursing System. He stated that the action was completed.

3. We recommend that the Commanding General, U.S. Army Investigative Command; Director, Naval Criminal Investigative Services; Inspector General, Department of the Air Force; and the Deputy Inspector General,

Defense Criminal Investigative Services coordinate worldwide fuel-related investigations with the Fuel Fraud Attorney, Defense Energy Support Center.

Management Comments. The investigative organizations concurred with the recommendation. The U.S. Army Criminal Investigative Command expects an updated version of their Regulation 195-1, Chapter 11, incorporating this recommendation to be published by June 30, 2006. The Navy Criminal Investigative Service stated that their implementation would be effective immediately. The Air Force Director of Criminal Policy and Programs, Office of Special Investigations, concurred by e-mail and stated that they were already coordinating with DESC. The Defense Criminal Investigative Service concurred without comments in an e-mail and the e-mail was not scanned in the Management Comments section. The Special Assistant to the Deputy Inspector General for Intelligence verbally agreed to immediate implementation.

Appendix A. Scope and Methodology

We assessed whether DoD complied with the requirements of the, “Improper Payments Information Act of 2002 (Public Law No. 107-300),” as implemented in the Under Secretary of Defense (Comptroller)/Chief Financial Officer Oct. 7, 2003, Memorandum and OMB Memorandum M-03-13, May 21, 2003. We obtained DoD survey information for FYs 2003-2005 that DFAS-Columbus compiled on payments and improper payments. We analyzed the survey information to determine whether DFAS-Columbus identified all improper payments, as defined by OMB guidance. We also obtained summary information related to fuels from DoD investigative agencies. We visited DESC and DFAS-Columbus to determine whether they complied with contracting procedures that require the timely reconciliation and closing of contracts.

We performed this audit from May 2005 through February 2006 in accordance with generally accepted government auditing standards. Further details on organizations visited are available upon request.

Use of Computer-Processed Data. We used computer-processed information from fuel systems that DESC manages and from the DFAS vendor pay system for fuels. We did not audit the reliability of the computer-processed contract data that we analyzed. The reliability of the data was not a critical factor in identifying and reporting improper payments.

Use of Technical Assistance. The Data Mining Division, Office of the Deputy Inspector General for Auditing provided us with information on the databases of fuel payments it provided to DESC to research for improper payments.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the DoD Financial Management and DoD Contract Management high-risk areas.

Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) issued one report on improper payments and one reports on fuel. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. The Air Force also issued one report.

DoD IG

DoD IG Report No. D-2005-0100, “Identification and Reporting of DoD Erroneous Payments,” August 17, 2005

DoD IG Report No. D-2003-003, “Controls for the DoD Aviation Into-Plane Reimbursement Card,” October 3, 2002

Air Force

Air Force Audit Agency Report F2003-0007-FC4000, "Air Force Management of Aviation Fuel Purchases," February 13, 2003

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, Defense Energy Support Center
Deputy Inspector General, Defense Criminal Investigative Service

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Finance, and Accountability
Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International
Relations, Committee on Government Reform

Defense Energy Support Center Comments



DEFENSE LOGISTICS AGENCY
DEFENSE ENERGY SUPPORT CENTER
8725 JOHN J. KINGMAN ROAD, SUITE 4950
FORT BELVOIR, VIRGINIA 22060-6222

IN REPLY
REFER TO

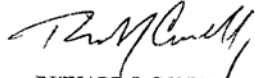
DESC-DI

APR 28 2006

MEMORANDUM FOR J-3
(ATTN: J-35)

SUBJECT: DoDIG Draft Report on Improper Payment for Defense Fuel
(Project No. D2005-D000FI-0206 000)

Attached is our response to the subject report. Please contact Emilia Snider at
(703) 767-9671 or email to Emilia.Snider@dla.mil if you have any questions.


RICHARD J. CONNELLY
Director

Attachment
cc: DESC-C
DESC-DS
DESC-G
DESC-K
DESC-R

Subject: DoDIG Draft Report on Improper Payments for Defense Fuel, Project No.
D2005-D000FJ-0206 000

Recommendation 2: We recommend that the Director, Defense Energy Support Center, Defense Logistics Agency comply with Federal Acquisition Regulations and DoD Regulations to:

- a. Submit reconciliation requests for completed contracts on DD Form 1594-Contract Completion Statements to the Defense Finance and Accounting Service-Columbus in accordance with the Federal Acquisition Regulation Subpart 4.804-4 and the Defense Energy Procurement Instruction

DESC Response - Concur. DESC agrees that prior to November 2005, DESC did not have a quality control system in place to ensure timely submission of DD Form 1594s to DFAS. However, as stated in the Report, in November 2005 DFAS Columbus established an electronic mailbox as a central receiving point for DD Form 1594s. DESC intends to revise the Defense Energy Procurement Instruction (DEPI) to require all Contracting Divisions to use the DFAS Columbus electronic mailbox for submitting their DD Form 1594s.

Completion date: May 31, 2006

- b. Establish a system to monitor contract reconciliations

DESC Response - Concur. In order to preclude future loss of documents and untimely submissions, DESC will develop an electronic control system to track the DD Form 1594 submissions to DFAS. The tracking system to document submission of the DD Form 1594 to DFAS Columbus will include a timeframe of periodic status inquiries on the reconciliation progress. The tracking system will also provide a tool for visibility of backlogs. This will permit adequate time to initiate proactive efforts for resolving backlog issues before they become a concern. The tracking system, with associated metrics and progress visibility, will become operational once DFAS establishes their automated reconciliation system.

Completion date: September 30, 2006

- c. Allow Defense Finance and Accounting Service-Columbus access to Defense Energy Support Center contract systems.

DESC Response - Concur. Based on the draft audit report discussion, DESC has clarified that the data needed to be made available is archived transaction data for the specific contracts that are being closed out. Upon DFAS's request for contract specific archived data, DESC will upload the pertinent information into a temporary Defense Fuel Automated Management Systems (DFAMS) file. DFAS will then be able to enter DFAMS and run a query to access the data. A business process will be developed between DESC and DFAS to institutionalize these procedures. When the Into-Plane Program moves to the Fuels Enterprise Server (FES), DFAS will have direct access to FES for information.

Completion Date: June 30, 2006

d. Report reconciliation and closing for fuel contracts as internal control weaknesses.

DESC Response – Concur with Comments In response to the recommendation to report an internal control weakness, DESC will establish an internal control objective for the timely and accurate closeout of DESC contracts. We have already initiated the development of an electronic control system to track the DD Form 1594 submission to DFAS as described in response to Recommendation 2 b. This effort will materially improve the contract closeout process. As part of the objective, DESC will work closely with DFAS to ensure the resolution of the reconciliation process issues, a DFAS responsibility, is included in the overall closeout process.
Completion date: September 30, 2006

e. Issue updated procedures for reviewing improper payment referrals from data mining

DESC Response – Concur This recommendation refers to the data mining results on the fuel credit cards. DESC recently revised duplicate billing filters to reduce the likelihood of duplicate payments. DESC identified that the AIR Card contractor's (ACC) duplicate billing filter was too fine a sieve; an exact match of 5 fields related to the transaction was too exacting and might cause potential duplicate transactions to process. At DESC-K request, the ACC submitted alternate field matches and an analysis of specific combinations. DESC-R reviewed and selected desired fields to be "scanned" for duplicates. The ACC was notified on December 13, 2005, and has implemented accordingly, filtering based upon matches in the following fields: Card number, quantity, delivery date. Additionally, the ACC moved manual invoice data-entry personnel under the AIR Card team as opposed to the ACC's International team, allowing direct supervision. They also provided additional training to assigned manual entry personnel. Concurrently, DESC modified the Automated Voucher Examination Disbursing System (AVEDS) duplicate billing filter via System Change Request AVE-IDES-0000-I0367 (moved into production November 29, 2005 – DoDAAC, tail number, quantity, and lift date). Also, in order to ensure Into-Plane contractors followed proper procedures in invoice submission, DESC-P (contracting) issued a letter to all Into-Plane merchants regarding proper submission of corrected or duplicate transactions. Attached is the letter. In addition to the above improvements to the duplicate billing procedures, DESC-K issued a Fuel Card Standard Operating Procedure (DESC-K-05-1) implementing the performance of a statistical sampled quarterly analysis to mitigate risk of improper manual transactions from being entered and processed into AVEDS. A copy of the DESC-K-05-1 is also attached.
Completion date: Done

Additional Comments: In the report, the DoDIG referred to DESC Into-Plane contracts as credit card contracts. That is not true. Into-Plane contracts are indefinite delivery type contracts for refueling only. The AIR Card simply is the identification mechanism and billing instrument for contract lifts and/or non-fuel items or non-contract fuel

Omitted

Changed on
page 5 and
page 8.

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
P.O. BOX 182317
COLUMBUS, OHIO 43218-2317

DFAS-CS/CO

MAY 5 2006

MEMORANDUM FOR DIRECTOR, DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Management Response to DoDIG Draft Audit Report on, "Improper Payments for Defense Fuels," dated April 4, 2006, Project Number D2005-D000FJ-0206.000

In accordance with subject audit, attached are management comments to the draft audit report.

My point of contact for additional information is Ms. Frances Crown, DFAS-CSQA/CO, at 614-693-7387 or DSN 869-7387.

A handwritten signature in black ink, appearing to read "Carlton E. Francis".

Carlton E. Francis
Central Site Deputy Director

Attachment:
As stated

www.dfas.mil
Your Financial Partner @ Work

**Management Response to DoDIG Draft Audit Report on,
"Improper Payments for Defense Fuels," dated April 4, 2006,
Project Number D2005-D000FJ-0206.000**

Recommendation 1: We recommend that the Director, Defense Finance and Accounting Service-Columbus:

Recommendation 1a: Establish an accurate baseline for improper fuel payments.

Management Comments: Non-Concur. The Fuels Payment Division has an established baseline for improper fuel payments for FY 2005 in the Improper Payments Online Database (IPOD). The baseline will be verified for accuracy as reconciliations and post payment audits are completed.

Estimated Completion Date: This recommendation is considered closed.

Recommendation 1b: Prioritize contract reconciliations into the daily workload and provide results to the Defense Energy Support Center, Defense Logistics Agency in a timely manner.

Management Comments: Concur. The Fuels Payment Division will prioritize contract reconciliation based on Contract Completion Statements (DD Form 1594s) received from the Defense Energy Support Center (DESC). The Fuels Payment Division is pursuing the creation of a reconciliation/pre-validation team to accomplish these reconciliations. However, in order to fully facilitate the prioritization of the contract reconciliation process, the Fuels Payment Division will continue to work with DESC to provide enhanced data query capabilities in the Automated Voucher Examination Disbursing System (AVEDS). The query capability will provide an automated means to reconcile contracts in a timely manner. By October 1, 2006, the Fuels Payment Division will have procedures in place to reconcile contracts with a standardized reconciliation tool and to report these reconciliations to DESC.

Estimated Completion Date: October 1, 2006

Recommendation 1c: Report Fuels Payment as medium risk, in accordance with the Improper Payments Information Act.

Management Comments: Non-Concur. DFAS Columbus does not agree the Fuels Payment Division should be rated as a medium risk. Fuels Payment Division's erroneous payments were rated low risk based on the Office of Management and Budget (OMB) Implementation Guidance for the Improper Payments Information Act of 2002, Public Law 107-300, which states in part, "Significant erroneous payments are defined as annual erroneous payments... exceeding both \$10 million and 2.5 percent of program payments." Although improper payments for the Fuels

Payment Division did exceed the \$10 million threshold established by the OMB, the improper payments did not exceed 2.5 percent of total program payments

Estimated Completion Date: This recommendation is considered closed.

Recommendation 1d: Report identification and reporting of improper contract payments and reconciliation and closing of contracts as internal control weaknesses.

Management Comments: Partially Concur. A post payment review process is used as a control mechanism to ensure the accuracy of improper payment reporting. A post payment audit for AVEDS is scheduled for June 2006. Statistical sampling methodology will be applied during the review to validate the accuracy of the improper payment data reported in IPOD. A reconciliation/prevalidation team will reconcile contracts based on DD Form 1594s and prevalidate the availability of funds prior to payment. If improper payments are discovered during these reconciliations, they will be reported in IPOD. Progress against these actions will be reviewed periodically and reported to management.

Estimated Completion Date: August 1, 2006

Recommendation 1e: Implement the recommendations of the Defense Finance and Accounting Service-Columbus in the Compliance Review of Fuel Systems and test to determine whether internal controls are working as intended.

Management Comments: Concur. The Fuels Payment Division will implement the recommendations from the Compliance Review of the Fuels Systems. Testing to determine whether internal controls are working as intended will be accomplished according to the Federal Managers' Financial Integrity Act (FMFIA) standardized matrices. The FMFIA reviews are completed quarterly by the Division. In addition, the Audit Support Branch will perform a Compliance Review no later than October 1, 2006.

Estimated Completion Date: October 1, 2006

Recommendation 1f: Establish controls to categorize the root causes of improper payments

Management Comments: Partially Concur. There are existing reason codes that identify the root causes of improper payments recorded in IPOD. These codes are updated as needed. In addition, guidance to reiterate the proper use of the codes will be documented and provided to all payment offices by July 3, 2006.

Estimated Completion Date: July 3, 2006

Additional Management Comments:

The Adequacy of Management Controls section of the report states, "DFAS Columbus inaccurately reported that it corrected a material weakness (as defined by DoD Instruction 5010 40) related to identifying improper payments on commercial and vendor pay contracts, including fuel payments, during FY 2005. Specifically, DFAS Columbus did not implement a plan to use statistical samples to project the amount of improper payments on commercial and vendor contracts."

The material weakness identified that DFAS Columbus did not have a statistically sound methodology in place to estimate improper payments. As a result, the projected number of improper payments could be misreported. To correct the weakness, DFAS Columbus developed a statistically sound methodology, during fourth quarter FY 2005, to estimate improper payments. The statistical methodology is used to validate the accuracy of the actual improper payments reported in IPOD. Closure of the material weakness was based on independent validation, by the Internal Review office, of the proper application of the methodology during the MOCAS Post Payment Audit. AVEDS is scheduled for post payment audit in June 2006.

Department of the Army Comments



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
U.S. ARMY CRIMINAL INVESTIGATION COMMAND
6010 6TH STREET
FORT BELVOIR, VA 22060-5506

CICG-CS

27 April 2006

MEMORANDUM FOR The Inspector General, Department of Defense, 400 Army Navy Drive,
Arlington, Virginia 22202-4704

SUBJECT: Report on Improper Payments for Defense Fuel (Project No. D2005-D000FJ-
0206 000)

- 1 The U.S. Army Criminal Investigation Command (USACIDC) has reviewed the draft report. The recommended action is for investigative agencies to coordinate worldwide fuel-related investigations with the Fuel Fraud Attorney, Defense Energy Support Center (DESC).
- 2 Concur. The USACIDC will coordinate fuel-related investigations with the Fuel Fraud Attorney, DESC. The requirement for the USACIDC agents to coordinate fuel-related investigations with the Fuel Fraud Attorney has been added as a regulatory requirement in CID Regulation 195-1, Chapter 11. Additionally, we've incorporated a new requirement to provide copies of all fuel-related CID reports to DESC in accordance with Chapter 8. The current version of CID Regulation 195-1 is under revision, and is expected to be approved and published no later than 30 June 2006.

FOR THE COMMANDER:


DANIEL M. QUINN
Chief of Staff

Printed on  Recycled Paper

Department of the Navy Comments



DEPARTMENT OF THE NAVY
HEADQUARTERS
NAVAL CRIMINAL INVESTIGATIVE SERVICE
716 SICARD STREET SE SUITE 2000
WASHINGTON NAVY YARD DC 20388-5380

7000
Ser 001/6U0011
09 May 06

From: Inspector General
To: Inspector General, Department of Defense

Subj: DRAFT REPORT ON IMPROPER PAYMENTS FOR DEFENSE FUEL
(PROJECT NO. D2005-D000FJ-0206.000)

1. Subject report has been reviewed and the Naval Criminal Investigative Service (NCIS) concurs with the recommendation that NCIS coordinate worldwide fuel related investigations with the Fuel Fraud Attorney, Defense Energy Support Center effective immediately.


L.A. BEYER

Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE
OFFICE OF THE INSPECTOR GENERAL
WASHINGTON DC

May 2, 2006

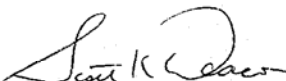
MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

FROM: SAF/IGX

SUBJECT: DoDIG Draft Audit Report, Improper Payments for Defense Fuel, (Project
No. D2005FJ-0206)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) provide Air Force comments on subject report.

Please see the attached Air Force comments. If there are any questions, please contact my POC, Lt Col Bill Baker, 703-697-4511.


SCOTT K. DEACON, Colonel, USAF
Director, Special Investigations

Atch: AFOSI Comments

AIR FORCE COMMENTS

ON

DoDIG Draft Audit Report, Improper Payments for Defense Fuel, (Project No. D2005FJ-0206)

AFOSI Page 7, Lines 1 – 4. The report states that three OSI cases were not prosecuted. Criminal prosecution is beyond the control of AFOSI and therefore, is not relevant to this audit report. Two of the three cases involved foreign subjects overseas who could not be pursued under the laws of the countries where they occurred. The third case was an SJA declination to prosecute a SSgt who was black-marketing fuel coupons in Germany. This statement should be deleted.

Corrected
page 7.

AFOSI Page 7, Lines 7-8 and Page 10, Lines 5-9 (Recommendation #3). The report insinuates that all DCIO's are not coordinating fuel-related investigations with the DESC fuel fraud attorney. AFOSI includes DESC on distribution for investigations where DESC operations might be affected and senior investigative managers for all Defense Criminal Investigative Organizations (DCIO's) meet with the DESC fuel fraud attorney every month at the DOD Procurement Fraud Working Group. AFOSI has contact with the DESC Fuel Attorney several times per month. In order to facilitate the appropriate corrective action, the report should cite specific examples where matters were not coordinated with the DESC fuel fraud attorney.

AFOSI Page 7, Lines 18-19. The report states that investigative organizations did not have a central office where all information on fuel investigations could be located. AFOSI maintains all investigative files in a central database. AFOSI does have a "functional" organizational structure but the use of a centralized database allows access to any required information on fuel-related investigations. More significantly, a functional organizational structure is not an impediment to investigating fuel fraud.

AFOSI Page 7, Lines 21 – 23. The comments about "counterintelligence inquiries" are inaccurate. These were TALON reports about possible surveillance or security threats to fuel areas. TALON reports are not related to fraud matters and should not be discussed in this audit report. This sentence should be deleted.

Corrected
page 7.

AFOSI Page 7, Line 23 – 24. The context of the report is misleading because AFOSI does investigate Government Purchase Card (GPC) fraud. However, AFOSI did not have any investigations of fuel-related credit card fraud. The report should be changed to clarify that AFOSI had no investigations involving **fuel-related** credit card fraud.

Corrected
page 7.

Defense Criminal Investigative Service Comments



(Investigations)

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE

SUBJECT: Response to Proposed Audit Report on Improper Payments for Defense
Fuel

This memorandum is in response to your draft audit report, "Improper Payments for Defense Fuel," Project No. D2005-D000FJ-0206.000, April 4, 2006, which recommends that the Defense Criminal Investigative Service (DCIS), along with the other Defense Criminal Investigative Organizations, "coordinate worldwide fuel-related investigations with the Fuel Fraud Attorney, Defense Energy Support Center."

I concur with the recommendation. By policy, DCIS Special Agents in Charge normally disseminate DCIS reports to the appropriate legal counsels with some exceptions, such as undercover operations, Joint Terrorism Task Force investigations, or sealed Qui Tam complaints. It should be noted that of the four DCIS reports highlighted in the audit, the three criminal investigation case summaries indicated they were distributed to the DESC Fraud Counsel and the one DCIS Information Report resulted from a DESC Fraud Counsel referral.

A handwritten signature in dark ink, appearing to read "D. F. Willkens", is positioned above the printed name.

Daniel F. Willkens
Acting Director
Defense Criminal Investigative Service

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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